

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Wednesday, August 22, 1945, at 11:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper

Mr. Carpenter, Secretary
Mr. Connell, General Assistant,
Office of the Secretary
Mr. Morrill, Special Adviser
Mr. Thurston, Assistant to the Chairman
Mr. Vest, General Attorney

Mr. Szymczak presented a draft of letter to the Bank of Mexico, Mexico City, reading as follows:

"Reference is made to your letters of July 23 and August 8, 1945, and to the exchange of telegrams between Mr. Szymczak and Mr. Gomez under the dates of August 7 and 8, 1945, relative to the plan whereby Banco de Mexico would divest itself of control of Pan American Trust Company, New York City.

"It is the understanding of the Board of Governors of the Federal Reserve System, to which your letters and such telegrams have now been formally presented, that Banco de Mexico undertakes and agrees to dispose of its holdings of stock of Pan American Trust Company as follows:

1. Sell immediately one-third of its holdings of stock of Pan American Trust Company to Nacional Financiera and Banco Nacional de Comercio Exterior on condition that such institutions resell, within the period from March 1, 1946 to August 31, 1946, to private interests, the stock of Pan American Trust Company acquired by such institutions, Banco de Mexico undertaking and agreeing to use its best efforts to cause such condition to be performed.

2. Sell to private interests the remaining two-thirds of its holdings of stock of Pan American Trust Company, Banco de Mexico undertaking and agreeing to use its best efforts

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"to cause such stock to be so sold prior to March 1, 1946.

3. Inform the Board of Governors of the Federal Reserve System bi-monthly of the progress made in carrying out the foregoing.

"The Board is happy to accept this arrangement, and would appreciate receiving a letter from you confirming that the foregoing correctly states the understanding between us.

"The Board and the Federal Reserve Bank of New York are gratified that it has been possible to reach so amicably an arrangement agreeable to all concerned and trust that its consummation will further the close and friendly relations that have been enjoyed in the past."

Mr. Szymczak stated that the program set forth in the above letter was the result of a proposal contained in a letter received from the Bank of Mexico under date of July 23, 1945, as modified by an informal suggestion contained in a telegram which he sent to Mr. Gomez, Manager of the Bank of Mexico, under date of August 7, 1945, and which was acceptable to the Bank. He also called attention to the fact that the program related only to existing stock of the Pan American Trust Company and that if, as had been suggested by the New York State banking authorities, additional stock were sold it was expected that that would be handled as a separate matter.

In response to an inquiry, Mr. Szymczak made the further statement that the proposed letter made no reference to the request received by the Board for a determination whether the Mexican bank is a holding company affiliate of the Pan American Trust Company and that if it became necessary for the Board to make such a determination that could be done at a later time.

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Upon motion by Mr. Szymczak, the letter to the Bank of Mexico was approved unanimously.

Reference was made by Mr. Eccles to his attendance yesterday morning at the National Advisory Council on International Monetary and Financial Problems created by the Bretton Woods Agreements Act to coordinate the policies and operations of the representatives of the United States on the International Monetary Fund and the International Bank for Reconstruction and Development, and it was understood that Messrs. Eccles and Szymczak would meet with the appropriate members of the staff to discuss some of the problems that would require consideration by the Board in that connection.

At this point Messrs. Parry and Brown came into the meeting.

Mr. Ransom referred to the letter addressed by the Board on August 20, 1945, to Mr. Robert Nathan in which reference was made to a number of subjects pertaining to the reconversion or transition period from the standpoint of the Board of Governors of the Federal Reserve System and which contained the statement that, subject to authorization by the Board, Mr. Ransom was prepared to discuss with the stabilization officials a program for such liberalizing changes in Regulation W as may be deemed to be desirable under the Government's reconversion program. Mr. Ransom said that he and Mr. Parry had given a great deal of thought to the changes that should be made in Regulation W in the light of the termination of the war and the program of

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the Government for removal of wartime restrictions, and that in order to ascertain the views of the Office of War Mobilization and Reconstruction he would suggest that he be authorized by the Board to discuss with Mr. Nathan four liberalizing changes in the Regulation which it was felt that the Board might make. The four amendments referred to by Mr. Ransom were (1) abandonment of the regulation of home improvement credits, (2) discontinuance of soft goods, such as clothing and linens, and the light hard articles, such as tires, lamps, and dishes, as listed articles so that the items which would continue as listed articles would not include more than 15 all of which are typically sold on instalments (3) reduction of down payment on all items except automobiles and motorcycles from 33-1/3 per cent to 20 per cent and an increase in the maximum maturity from 12 months to 15 months, and (4) abandonment of the regulation on nonpurpose loans.

There was a discussion of the reasons and possible effects of these changes in Regulation W, during which Mr. Ransom stated that in connection with his consideration of the matter he had called Mr. Gordon, formerly Deputy Governor of the Bank of Canada, who is serving as Chairman of the Wartime Prices and Trade Board, Ottawa, Canada, on the telephone, who stated that the Board on the whole had had a satisfactory experience with the regulation, that under Canadian law there was no authority for the Canadian Government (as distinguished from the governments of the provinces) to enact permanent legislation authorizing the regulation of consumer credit, that the situation in Canada was

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very different from that in the United States because of the fact that in Canada there were only a few banks and large trade organizations all of which were "in line" with the regulation, but that there were some pressure groups developing and that he would appreciate it if, when the Board decided on what it proposed to do in the way of liberalizing the regulation, he could be advised so that a representative of the Wartime Prices and Trade Board could come to Washington to go over the matter. The reason for this request, Mr. Ransom said, was that Mr. Gordon felt that whatever was done in the United States to liberalize the regulation of consumer credit would have to be done in Canada also. Mr. Ransom made the further statement that he had advised Mr. Gordon that the Board would be glad to comply with that request.

Mr. Szymczak inquired whether and when the Board should propose the legislation authorizing the continuance of consumer credit regulation, and after a discussion of the various aspects of this question it was agreed that if it should appear at a later date that there was public support for such legislation the Board should be prepared to suggest the type of legislation that should be enacted but that the question should not be raised at this time.

Chairman Eccles questioned the desirability of extending the maximum maturity of instalment credits on items which would continue as listed articles, since such items for the time being would continue to be scarce and more liberal credit terms would only add to the existing inflationary pressures created by such scarcity. This point was

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discussed and it was agreed for the purpose of Mr. Ransom's discussion with Mr. Nathan that the suggested extension of maximum maturity should be dropped.

Mr. Szymczak stated that before a decision on Mr. Ransom's suggestion was made he would like to have an opportunity to consider the proposed amendments further.

At the conclusion of the discussion, it was understood that Mr. Ransom would submit the proposed changes to Mr. Szymczak and that, following clearance by him, Mr. Ransom was authorized to discuss the amendments with Mr. Nathan to ascertain the views of the Office of War Mobilization and Reconversion and thereafter to obtain the views of the Office of Price Administration, the Treasury, and the Federal Loan Administrator.

Secretary's note: After the meeting Mr. Ransom submitted the following statement of the proposed amendments to Mr. Szymczak who stated that he concurred in the above action with the understanding that the matter would come before the Board again for final action:

- "Sketch of Proposed Amendment"
- "(1) Give up home-improvement credits.
 - "(2) Throw out soft-goods (such as clothing and linens) and light hard-goods (such as tires, lamps, and dishes) so that the 'short list' -- see below -- will contain not more than 15 items, all of which are typically sold on instalments.
 - "(3) Reduce down payment (except for automobile group) from 33-1/3 per cent to 20 per cent.
 - "(4) Give up non-purpose loans -- i.e., any loan which is not for the purpose of purchasing any article on the 'short list.'

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"Short List' -- Illustrative*

"Group A - One-third down (including any trade-in) and 15 months maximum maturity.

1. Automobiles.
2. Motorcycles.

"Group B - 20 per cent down (on top of any trade-in) and 12 months maximum maturity.

1. Refrigerators.
2. Washing machines and ironers.
3. Suction cleaners.
4. Electric appliances not elsewhere listed.
5. Furniture and floor coverings.
6. Radios and phonographs.
7. Pianos and organs.
8. Sewing machines.
9. Stoves, ranges, and space heaters.
10. Jewelry, silverware, and watches.

"Regulation W -- Explanation of proposed Amendment

"For condensed outline of amendment and 'short list' see page 1.

"This amendment, by simplifying the regulation and reducing its scope to essentials, would make both its purpose and its method stand out more clearly. It should make the regulation more workable and, in our opinion, more nearly conform to the Government's reconversion program.

"Giving up home-improvement credits would take out a sector on which effective enforcement seems to be almost impossible. To retain this sector, now that new construction is being released from control by WPB, would not do much to dampen over-all demand for construction materials and labor but would divert to new construction materials and labor that can at this time be used to better purpose in repair and modernization.

"Throwing out soft-goods and minor items of hard-goods, of which almost all are low in unit-cost, would focus the regulation on a 'short list' of major durables --

*This list is tentative. It might finally be a little more or a little less inclusive.

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"see page 1 -- all of which are typically sold on instalments and consequently amenable to selective credit control. That these major durables are in short supply, and will remain so for months to come, is a matter of common knowledge. Of the articles eliminated, on the other hand, many will soon be in plentiful supply and all are typically sold for cash or else in charge accounts. If charge sales are not paid for by the 10th of the second month, the default will no longer freeze the account against sales of items eliminated from the list but will continue to freeze it against sales of items on the 'short list' of major durables.

"No change in maturities is proposed, and none in down payments on automobiles, now 33-1/3 per cent (including any trade-in), or furniture, now 20 per cent (in addition to any trade-in). For other articles on the 'short list', however, on which the present down payment is 33-1/3 per cent (in addition to any trade-in), a reduction to 20 per cent is proposed. This will line up these other articles with furniture, thus simplifying store operations. The lower down payment, though it will still be high enough to apply substantial restraint, should take much of the edge off certain criticisms, such as the 'class legislation' criticism and the charge that present terms are too stiff for returning veterans.

"The regulation now covers both 'purpose' and 'non-purpose' loans as to maturity and 'purpose' loans as to amount also (to parallel down payment requirement on instalment sales). After the amendment, it would cover 'purpose' loans only -- those for purchasing any article on the 'short list.' It would no longer apply to 'non-purpose' loans, including so-called remedial loans. Why 'non-purpose' loans should be included has always been difficult for banks and their customers to understand and would be more difficult to understand after soft-goods, etc., have been released from credit control."

Chairman Eccles stated that Colonel Mechem of the War Department had called on him and left a War Department memorandum outlining a program for discontinuing liaison officers at certain of the Federal Reserve Banks. Thereafter, Chairman Eccles said, the following draft of reply to the memorandum was prepared and read to Colonel Mechem

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over the telephone who said it was entirely satisfactory:

"This refers to the War Department's memorandum outlining a program for discontinuing liaison officers at certain of the Federal Reserve Banks. As we understand the proposal it is that the liaison officers be discontinued at the Federal Reserve Banks of Boston, Atlanta, Minneapolis, Dallas and San Francisco (or Los Angeles) and that the functions now performed by these liaison officers would hereafter be performed, respectively, by the liaison officers at New York, Washington, Chicago, Kansas City, and Los Angeles or San Francisco, as the case may be.

"These proposed changes are agreeable to the Board of Governors. However, if and when the discontinuance of liaison officers at the particular Federal Reserve Banks mentioned becomes effective, it would be helpful in the interests of efficient and prompt handling of matters relating to guaranteed loans if the War Department would delegate to those Federal Reserve Banks authority to pass upon certain relatively unimportant questions connected with guarantee and loan agreements which now require the concurrence of liaison officers but not the concurrence of officers of the War Department stationed in Washington. For example, the Federal Reserve Banks might be authorized to approve amendments to loan agreements with respect to the disposition or acquisition of fixed assets, payments of dividends and bonuses, salary increases, and other similar amendments which are not of a substantial nature and which, in the opinion of the Federal Reserve Bank, would not adversely affect the interest of the War Department."

The reply was approved unanimously, with the understanding that a copy of the War Department memorandum and the Board's reply would be sent by mail to each of the Federal Reserve Banks.

At this point Messrs. Vest, Parry, and Brown withdrew from the meeting.

The action stated with respect to each of the matters herein-after referred to was then taken by the Board:

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The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 21, 1945, were approved unanimously.

Letter to Mr. Alfred Limber, Akron, Ohio, reading as follows:

"The Securities and Exchange Commission has referred to the Board your letter of July 26, 1945, relative to the recent change in margin requirements, because it is the Board's Regulation T which governs margin requirements under the Securities Exchange Act of 1934.

"You refer particularly to the new provision that requires the proceeds of securities sold in undermargined accounts to be used to improve the condition of the accounts until they reach the new standard of 75 per cent.

"When the Board adopted the 75 per cent requirement, it did not go so far as to provide, as it might have provided, that accounts which were undermargined be brought up immediately to the new standard, but it did not feel that it could permit continued trading in an undermargined account or the withdrawal of money from an undermargined account after the sale of a security. To have permitted such a withdrawal of money would have allowed margin traders to borrow for purposes other than stock-trading on the strength of collateral that should be used only to support their indebtedness for carrying stocks. If, for example, a debit balance of \$50,000 is secured by \$100,000 of securities and \$10,000 of securities are sold, the debit balance is reduced to \$40,000 and the securities to \$90,000, a margin of about 55 per cent resulting. A withdrawal of \$5,000 would create that amount of additional indebtedness against collateral already much less than adequate to provide a margin of 75 per cent, which is the new standard.

"While the Board is appreciative of the fact that some individuals may have made plans on the basis of the margin requirements as they stood in the past, it does not believe that it could justify making special provision for those who have made such plans. Reliance on a margin account to provide funds in the future must be made in the light of the knowledge that conditions may change, and those conditions include not only the Board's

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"margin requirements, but also such matters as the broker's own requirements and the state of the market. If the market experiences a pronounced decline in the interval, for example, possibilities for obtaining funds necessarily are curtailed."

Approved unanimously.

Letter to Mr. Peyton, President of the Federal Reserve Bank of Minneapolis, reading as follows:

"Enclosed is a copy of a letter dated August 11, 1945, from Mr. Grant W. Anderson, Vice President, Northwestern Bank of Minneapolis. Receipt of Mr. Anderson's letter has been acknowledged.

"Mr. Anderson inquires whether the stock of a certain company should be regarded as a registered stock within the meaning of the first sentence of section 1 of Regulation U since officials of the company say that they did not apply to have it listed and that they file no reports with the exchange.

"Section 12(f) of the Securities Exchange Act of 1934 provides that the Commission may extend unlisted trading privileges to any security under certain conditions and that 'Any security for which unlisted trading privileges are continued or extended pursuant to this subsection shall be deemed to be registered on a national securities exchange within the meaning of this title.' Consequently, Regulation U is applicable if the stock is admitted to unlisted trading privileges on a national securities exchange, and the question whether or not such privileges should be continued is one which is for the Securities and Exchange Commission to decide.

"It will be appreciated if you will advise Mr. Anderson."

Approved unanimously.

Letter to J. S. Todd & Co., Cincinnati, Ohio, reading as follows:

"We regret the delay in replying to your letter of July 9, 1945, in which you inquired about the applicability

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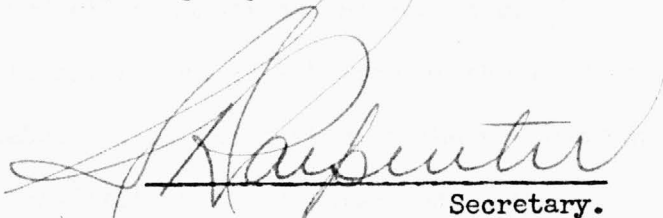
"of the Board's Regulation U to loans obtained by you from banks.

"As you will note in section 1 of the Regulation, a copy of which is enclosed, Regulation U is applicable only to loans on stocks for the purpose of purchasing or carrying stocks registered on national securities exchanges. Therefore, with respect to those loans which you can establish as being for the purpose of purchasing local unlisted issues, in which you state your principal business is conducted, the Regulation is inapplicable. If you also have some loans for the purpose of purchasing registered stocks, the loans are subject to the Regulation and, if made at the same bank, must be handled separately in accordance with the provisions of section 3(n). It should be noted that it does not matter whether the registered securities are purchased on an exchange or over the counter.

"You inquire whether any of your loans for the purpose of purchasing registered stocks would be exempt under section 2(c) of the Regulation which refers to 'any loan to a dealer, or to two or more dealers, to aid in the financing of the distribution of securities to customers not through the medium of a national securities exchange.' The term 'distribution' as used in this section means activities of the type that are commonly referred to as 'primary' or 'secondary' distributions, involving sizeable blocks of securities. It is not applicable to transactions in which a dealer buys securities from time to time from the public or from other dealers and later sells them to customers. Consequently, on the basis of the information which you have furnished us, the exemption would not be available to you."

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.